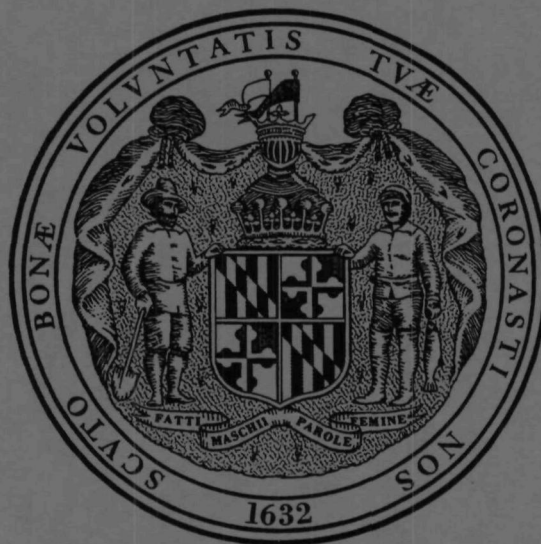


2-3-6-87

20051016

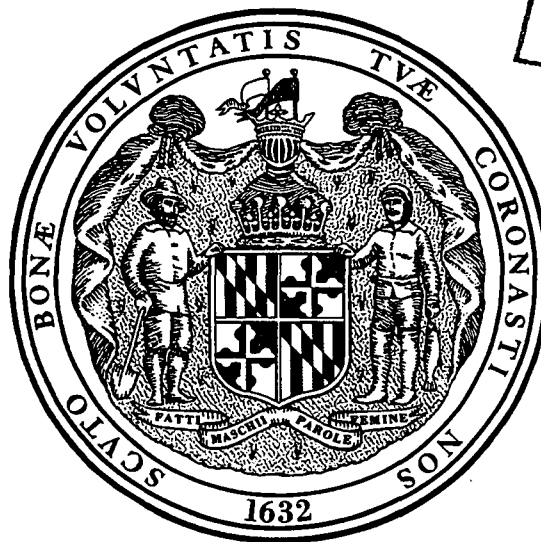
**COMMISSION TO STUDY WAYS
TO IMPROVE THE FINANCIAL VIABILITY
OF THE HORSE RACING INDUSTRY**



ANNAPOLIS, MARYLAND

March 1999

**COMMISSION TO STUDY WAYS
TO IMPROVE THE FINANCIAL VIABILITY
OF THE HORSE RACING INDUSTRY**



ANNAPOLIS, MARYLAND

March 1999

For further information concerning this document contact:

Department of Labor, Licensing and Regulation
500 North Calvert Street
Baltimore, Maryland 21202

(410) 230-6000

The Department of Labor, Licensing and Regulation does not discriminate on the basis of race, color, national origin, sex, age, religion or disability in the admission or access to its programs or activities. Dale J. Webb has been designated to coordinate compliance with non-discrimination requirements. Requests for assistance should be directed to Mr. Webb at (410) 230-6319, the address shown above or e-mail: OEOPE@dllr.state.md.us.

COMMISSION TO STUDY WAYS TO IMPROVE
THE FINANCIAL VIABILITY OF THE HORSE RACING INDUSTRY

March 16, 1999

The Honorable Parris N. Glendening
The Honorable Thomas V. Mike Miller
The Honorable Casper R. Taylor
Members of the General Assembly

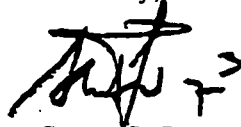
Ladies and Gentlemen:

The Commission to Study Ways to Improve the Financial Viability of the Horse Racing Industry was created through Chapter 750 of the 1997 legislative session and continued by Executive Order 01.01.1998.15. The Commission, comprised of four senators, four delegates and four gubernatorial appointees, was charged with studying ways to improve the financial viability of the Maryland racing industry.

The Commission issued its first report in November 1997 and, following, the Executive Order, reconvened in December 1998. Hearings were held in December, 1998 and January 1999 with testimony received from local and national participants in horse racing as well as a community group concerned about the impact of Pimlico Race Course on the surrounding neighborhoods. Our interim report was adopted on February 26, 1999 and addresses several short and intermediate initiatives we recommend the General Assembly consider during the 1999 Session. We have deferred consideration of several long term issues.

The Commission thanks the representatives of the organizations who appeared to give testimony and who assisted the Commission in gathering the policy options we now recommend to the Governor and General Assembly. Commission members look forward to continuing our deliberations later this year and stand ready to assist the General Assembly in evaluating the various initiatives that come before the legislature.

Sincerely,

A handwritten signature in black ink, appearing to read "Stuart S. Janney, III", with a stylized flourish at the end.

Stuart S. Janney, III
Chairman

Commission to Study Ways to Improve the Financial Viability of the Horse Racing Industry

Membership Roster

Mr. Stuart S. Janney, III, Chairman

Mr. John B. Franzone

Mr. Granville D. Trimper

Ms. Jean Yarborough

Senator Walter M. Baker

Senator Thomas L. Bromwell

Senator John J. Hafer

Senator Barbara A. Hoffman

Delegate Wheeler R. Baker

Delegate Clarence Davis

Delegate Sheila Ellis Hixson

Delegate Martha S. Klima

Commission to Study Ways to Improve the Financial Viability of the Horse Racing Industry

Staff

Mr. Mark Feinroth
Assistant Secretary
Department of Labor, Licensing and Regulation

Ms. Lyn Farrow
Legislative Liaison
Department of Labor, Licensing and Regulation

Ms. Karen Napolitano
Public Information Officer
Department of Labor, Licensing and Regulation

Ms. Sandra K. Crisafulli
Administrative Assistant
Department of Labor, Licensing and Regulation

Contents

Letter of Transmittal	iii
Roster	iv
Recommendations	1
Interim Report of the 1998-1999 Commission to Study Ways to Improve the Financial Viability of the Horse Racing Industry	2
Minority Report	24
Appendix	A-1

Recommendations of the Racing Study Commission

The 1998-1999 Racing Study Commission recommends:

Financial Relief

* In order for Maryland race tracks to compete with the purses offered by Delaware tracks, we recommend \$20 million in purse supplements to be divided seventy percent for thoroughbred purses and thirty percent for standardbred purses.

* A continuation of the 1998 marketing assistance program that provided matching funds for an effort to assist the industry in attracting new and former patrons to the race tracks. The Study Commission recommends an FY 2000 appropriation of \$1.5 million to continue the program at the existing funding level.

Statutory and Regulatory Reform

* The Study Commission believes that the Maryland Racing Commission has statutory authority to adopt regulations implementing telephone account betting and strongly urges the Racing Commission to proceed with such an initiative.

* The Study Commission recommends that an industry developed solution to the long standing crossbreed revenue sharing dispute be implemented among the industry constituent groups and by the General Assembly. The components of the revenue sharing plan include:

- a. Revision of the 6:15 law (Business Regulation Article, Section 11-504) so that it applies to live racing only.
- b. Revision of the in-state simulcast statute (BR 11-804) to permit any licensee to import any out-of-state race, subject to the consent of the horsemen that race at the licensee's tracks and breeders of the horses that race at the track.
- c. Agreement among all parties to waive the consents required in the Federal Interstate Horse Racing Act.
- d. Finalization of the revenue sharing agreement currently being reviewed by the parties.

* It is also recommended that legislation be enacted to reform the method of assessing licensed thoroughbred owners and trainers to pay the costs of the insurance premium for the Jockey Injury Compensation Fund. The Study Commission believes that a more equitable system than the current arrangement would be to pay the premium from funds derived from the handle that would otherwise be allocated to the purse.

* The Study Commission shares the widespread dissatisfaction expressed to us during our hearings concerning the current management and physical condition of the thoroughbred race track facilities in Maryland. We therefore recommend that study and consideration be given to the issue of upgrading facilities with particular emphasis on the role of Pimlico as the home of the Preakness as well as the views and needs of the Maryland State Fair to relocate and to continue racing at any new location.

Interim Report of the 1998-1999 Commission to Study Ways to Improve the Financial Viability of the Horse Racing Industry

INTRODUCTION

The Commission to Study Ways to Improve the Financial Viability of the Horse Racing Industry (hereinafter "Study Commission") issued its first report in November 1997, and several of its recommendations were incorporated into legislative proposals that emerged from the 1998 General Assembly Session. On June 19, 1998, Governor Parris N. Glendening reconstituted the Study Commission by issuing an executive order directing the Commission to continue its work, evaluate the success of the 1998 legislative reform and assistance package and to report further recommendations to both the Governor and General Assembly. On October 26, 1998, Governor Glendening appointed Stuart S. Janney, III, to succeed Eugene A. Conti, Jr., as Chairman of the Study Commission.

The Study Commission, thus far has met three times under Mr. Janney's leadership and has heard testimony from distinguished members of the Maryland horse racing industry as well as national experts and academicians. The Study Commission reviewed the current state of Maryland horse racing and looked at developments in the industry since the November 1997 report with special emphasis on developing proposals for the 1999 General Assembly. It is the intent of the Commission to focus on more long term strategic issues concerning Maryland horse racing in meetings following the conclusion of the 1999 General Assembly Session.

Short Term Financial Relief Recommendations of the 1997 Study Commission

The 1997 Study Commission recommended several policies to provide short term financial relief to the racing industry. Among the recommendations was a proposal to continue the wagering tax reduction which was lowered from 0.5 percent to 0.32 percent in 1997. Distribution of the remaining funds in the special

fund account for purses and for thoroughbred and standardbred breeding funds was also recommended, and the report suggested establishing new lottery games with horse racing themes to be dedicated to both the general fund and racing industry initiatives.

The 1998 Reform and Aid Package

The FY 99 budget contained \$10 million to assist the racing industry in several areas. Half of the \$10 million came from lottery proceeds, and a general fund appropriation provided the balance. Of the \$10 million, the sum of \$1.5 million was allocated to support a marketing program designed to encourage the industry to attract new racing fans, while nearly \$8 million was dedicated to support higher purses and to strengthen the Maryland Bred Funds. There was also an allocation for the University of Maryland to conduct studies of the industry's economic impact, public-private partnership opportunities, off track betting financial arrangements and market research.

PROCEEDINGS OF THE 1998-1999 STUDY COMMISSION

The 1998-1999 Study Commission met on three occasions prior to the 1999 legislative session. Several witnesses provided written testimony or other materials which are included in the appendices which accompany our report.

Generally, witnesses with a national perspective shared their views on both the competitive opportunities for which Maryland racing is poised to take advantage and the daunting challenges from the competitive environment which is the source of the industry's malaise. Virtually all witnesses agreed that a source of funding to attract new fans and grow the business is an indispensable component of any effort to restore Maryland racing to financial stability.

The witnesses who appeared before the Study Commission at its meetings in December 1998 and January 1999 included:

Bruce Garland, Senior Vice President of the New Jersey Sports and Exposition Authority. Mr. Garland is responsible for the management of the Meadowlands Race Track and Monmouth Park. New Jersey's standardbred harness racing program is considered the finest in the world, and Mr. Garland attributes the success of that program to the quality of the purses as well as a management philosophy that endeavors to treat racing fans as guests. Mr. Garland told the Study Commission that just as the real estate industry believes success is "location, location, location," horse racing's prosperity is based on "purses, purses, purses."

D. Wayne Rhodes, Horse Racing Studies Coordinator, Center for Applied Policy Studies, Institute for Government Service, University of Maryland, College Park. Mr. Rhodes appeared before the Study Commission twice. On the first occasion he presented the results of a market research study intended to guide the industry in attracting both new fans to Maryland racing and also more frequent visits from those who are already fans of the sport. Mr. Rhodes also appeared before the Study Commission to discuss the results of the Economic Impact Study as well as the Off Track Betting and Intertrack Wagering System Review conducted by the University of Maryland.

John Franzone, Chairman of the Maryland Racing Commission, presented a number of statutory and regulatory reforms that will help the Maryland racing industry prosper. These proposals had as their purpose making the regulatory scheme less burdensome, eliminating friction points between various segments of the industry or creating conditions which will foster investment. Mr. Franzone testified that a revenue sharing arrangement is a critical component of an electronic account betting program in Maryland in order to ensure that the industry benefits as a whole from the proceeds of the initiative.

A panel of witnesses appeared before the Study Commission representing the industry's perspective on a marketing partnership among the various segments of the industry. The group conducted a series of meetings over the course of several months and reached the conclusion that such a partnership would be a

progressive, growth oriented initiative. The plan presented to the Study Commission included an annual advertising and promotion budget which was heavily weighted in favor of generic horse racing advertisements based on the current schedule of major events that lend themselves to promotional efforts.

Tim Smith, Commissioner of the National Thoroughbred Racing Association (NTRA), testified at the second hearing of the Study Commission. The NTRA is the new league office for thoroughbred racing. It opened its doors in April 1998 with the mission to improve economic conditions for the industry by focusing on marketing and communications of a national 'brand.' By raising racing's profile on national television the industry can hopefully emulate the success produced by professional golf, basketball and stock car racing. The result is intended to initiate new fans to the sport as well as to increase attendance among established fans. The effort was begun with extensive consumer research and an initial marketing campaign designed around the "Go Baby Go!" slogan.

Mark Wilson, President of the Television Games (TVG) Racing Channel, which is owned by United Video, discussed racing's plans for expanding into new technology. The Racing Channel will broadcast live thoroughbred racing over cable and satellite and viewers can be linked to an interactive system that will allow wagers to be placed on the races. Maryland's current telephone account betting statute places it among six states which could presently join the Racing Channel's program, and Wilson estimates that Maryland stands to receive \$25 to \$30 million per year in proceeds from TVG after a three to five year start up period. There is a strong possibility that Maryland racing will be broadcast and featured throughout the country, provided Maryland moves forward with electronic wagering. There is also another consortium organizing to make both thoroughbred and standardbred electronic account wagering available over cable television.

Thomas Chuckas, Jr., representing Cloverleaf Enterprises, Inc., the owner of the Rosecroft Race Track, testified concerning Maryland's harness racing industry and specifically briefed the Study

Commission on the so-called "6:15 rule" as well as the stalled negotiations on the 80/20 revenue sharing agreement. The 6:15 rule prohibits the thoroughbred tracks from offering live racing after 6:15 p.m. and also prohibits the thoroughbred tracks from holding any simulcast races after 6:15 p.m. unless approval is received from the closest harness track, the group representing the horseman at the closest harness track and the group representing the standardbred breeders. Under an existing agreement between Pimlico/Laurel and Rosecroft, Pimlico/Laurel holds betting on simulcast races at Rosecroft during the day, and Rosecroft holds betting on simulcast races at Pimlico/Laurel at night. The agreement provides for sharing of revenues between the parties.

Joseph A. DeFrancis, President & CEO, Maryland Jockey Club, an owner of the two mile thoroughbred race tracks in Maryland, Pimlico and Laurel, provided the Study Commission with a picture of the competitive environment facing the Maryland racing industry. Delaware and West Virginia have authorized their race tracks to provide patrons with state-of-the-art slot machines and proceeds from those machines are used to enhance racing purses. Mr. DeFrancis urged the Study Commission to recommend prompt implementation of telephone account betting regulations to permit the race tracks to enter into broadcast agreements with the interactive cable networks of their choices.

Grove F. Miller and **Howard M. Mosner, Jr.**, representing Timonium Race Track, testified in support of continued purse and marketing subsidies from public funds. Without those subsidies, Timonium's purses would fall by as much as one third. They also discussed their continuing review of whether the State Fair has outgrown its present location and stated their Board's view that if the State Fair were to move, the continuation of horse racing at a new location is an important consideration.

Dennis Dowd, President, Bally's at Ocean Downs, is a strong advocate for slot machine authority at Maryland race tracks. Mr. Dowd made reference to the testimony of Bruce Garland concerning the New

Jersey racing industry where Dowd pointed out there is no "6:15 rule," and there is no state tax on horse racing. The state owned race tracks have a form of subsidy built into their operations because patrons at the New Jersey casinos can bet on horse racing with the proceeds benefiting New Jersey race tracks.

The last panel to testify before the Study Commission presented a preliminary, yet comprehensive, five year plan to restore the Maryland racing industry's financial position. **Alan Foreman**, Counsel to the Maryland Thoroughbred Horseman's Association, **Timothy Capps**, Executive Vice President of the Maryland Horse Breeders Association, and **Wayne Wright**, Executive Secretary of the Maryland Thoroughbred Horseman's Association, discussed a five year plan which contained public support for marketing, purses/bred funds and investment in new off track betting facilities. In the first year public expenditures would total \$36 million and would gradually reduce to zero by the fifth year. Proceeds from the Racing Channel/Television Games network would steadily replace the State's public assistance beginning at \$2 million dollars in the first year and increasing to \$24 million by the fifth year. This model assumes that pari-mutuel handle would increase from the 1998 total of more than \$550 million to more than \$750 million in year five. This model also raised the possibility of a new Maryland race track but did not include a detailed financial analysis for such a facility.

The Study Commission also heard testimony from several other individuals and organizations, including the Pimlico Racetrack Neighborhoods Task Force, an off-track betting operator and the Maryland Harness Horse Owners and Breeders Association.

Discussion

State of Racing Nationally

Across the Nation, racing enjoyed a strong year in 1998. All major racetracks showed significant increases in attendance, live handle and simulcast revenue. This reversed previous years of decline. These results were true for many of the smaller tracks as well. Whether it was the New York tracks,

Monmouth Park in New Jersey, Keeneland and Churchill Downs in Kentucky or the California tracks, the gains in attendance, live and simulcast handle were generally in double digits. Gulfstream Park last winter had its best season and opening day this year set a record. The Triple Crown continued to grow. Haskell Stakes Day at Monmouth was a record in crowd and handle and Travers Day at Saratoga had its second largest crowd in history. The Breeders Cup attracted over 80,000 to Churchill Downs and a record amount was bet across the nation.

The standardbred segment of the industry saw similar upswings in business in the last twelve months. Rosecroft Raceway reported its first increases in attendance and handle in more than a decade with attendance up eight percent and handle up 5 percent. The Meadowlands, a leader in harness racing has benefited from a ten percent increase in purses announced on February 2, 1999 and another increase is possible in late May. It appears that harness owners are becoming more confident and are spending more to acquire better horses.

Bloodstock sales are important because they are a good indicator of sentiment on the future direction of the industry. While certainly the American market has been positively influenced by a strong economy and demand from overseas buyers, it is also very clear that purchasers at every level are anticipating continued purse increases as racing improves its general financial condition. Gross revenue on thoroughbred bloodstock sales rose 17.9% to \$817 million in 1998 from 1997's record of \$693 million. What is more impressive is that the record broken in 1997 was established in 1983 at \$684 million. The Maryland sales at Timonium participated fully in these good results to post records in 1998.

The standardbred yearling sale figures were also quite impressive. The Chesapeake Yearling Sale at Rosecroft posted a 55% increase in gross sales and a 41% increase in the average sale. The Harrisburg, Pennsylvania Sale recorded a 16% rise in gross sales and 8% in the average per head sale price.

Generally thoroughbred purses rose across the nation and are expected to rise still further in 1999. Total national purses rose from \$750 million in 1988 only to fall back to that same level by 1993. Since then, however, they have risen steadily to now stand above \$900 million and in 1999 purses are projected to exceed \$1 billion.

Present State of Maryland Racing

The Study Commission believes that Maryland has not participated adequately in racing's upturn nationally. This conclusion is disturbing because we also believe that we are entering a period of consolidation. The growth of simulcasting, the advent of the "Racing Channel" and the greater presence of racing on TV will produce significant growth and consolidation in the industry and the winners will be those tracks with a strong purse structure and first class facilities. Several witnesses testified, in effect, that the strong will get stronger, and we agree. In testimony before the Study Commission racing was described as having a three tier structure. Tier One is New York, California, Kentucky, New Jersey (Monmouth) and Florida (Gulfstream). Maryland is at the top of Tier Two. Tier three is the smaller tracks around the country, the closest to Maryland being Charlestown in West Virginia. At a minimum our collective purpose should be to preserve Maryland's relative position, but ideally Maryland should move to Tier One. The importance of making that effort is clear if you agree, as we do, with the Maryland Jockey Club's testimony that Tier Two will be under the most competitive pressure as racing trends to a two tier system with four to seven jurisdictions constituting a "major league." In fact, industry consolidation is well under way. Santa Anita in California was purchased by Magna Corp., which has announced their interest in further acquisitions. Keeneland has joined with Harrahs and G Tech to buy Turfway. Churchill Downs has bought Ellis Park in Kentucky and Calder in Florida and was out bid for Santa Anita. They are also widely rumored to be actively pursuing other tracks.

Judged by this standard, 1998 was not a good year for the Maryland horse industry. What gains in attendance or handle occurred in the Fall of '98 were modest against national trends. Purses lost ground to the competition. The various industry groups found it difficult to cooperate as was evident in their respective statements to our Commission. The power failure at the Preakness, while not necessarily attributable to neglected repairs, prompted widespread national attention to the sad current state of Pimlico and the need for substantial capital improvements for the home of the Preakness.

On a brighter note, there were the previously cited gains in bloodstock sales and a record Maryland Million. The purse supplements enacted by the legislature in '98 certainly contributed to maintaining field sizes, which in turn is critical to the marketability of Maryland races to simulcast locations nationally. State funding also allowed the Maryland Million to attract more sponsors and enhance its television presence.

The challenge facing Maryland from slot machines in Delaware and to a lesser extent West Virginia is severe and unique. Other racing states have been substantially harmed by adjacent jurisdictions deploying slots. Certainly this is true in Kentucky which now faces slot competition from Indiana and Ohio; in New York, where racing competes with slot machines in New Jersey and Connecticut and in California which must contend with the gaming available in Nevada. But in these instances, whether because of the way slot revenue is apportioned (New Jersey), or because there is not a comparable racing product (Ohio, Indiana, Nevada and Connecticut) the harm is one dimensional. By this we mean it negatively impacts handle by deflecting betting dollars elsewhere. Maryland faces that impact, but also the added impact of having that money directly funneled into a competing purse structure. So, not only are there less dollars in Maryland to use for purses, but those missing dollars are used in direct competition to reduce the quality and attractiveness of Maryland racing.

The final element of the competitive landscape in Maryland is competition with other sporting activities. Major league baseball and football all compete in new taxpayer supported public facilities, which are more favorably received by customers than the aging private facilities at Pimlico, Laurel, Rosecroft and Ocean Downs. Also, as racing attempts to gain the public's attention with paid advertising those finite resources do not go far in one of the nation's most expensive media markets. Clearly they are not competitive with the money available to advertise the Maryland Lottery.

Saving Maryland Racing: A Rationale

Marylanders are justifiably proud of the cultural, ethnic, geographic and economic diversity that has led to the State often being referred to as "America in Miniature."

No aspect of Maryland life is more reflective of that diversity than its horse industry, which is deeply rooted in the sporting and economic history of the state. Horse racing in Maryland is truly a native industry.

Whether it was fox hunting or flat racing over plowed fields, horse racing was the first spectator sport enjoyed by colonial Marylanders. As early as 1721, there was organized racing around Annapolis, and in 1743 the Maryland Jockey Club became the first legally chartered sporting organization in America. Its racecourses, first in Annapolis, then in Baltimore at Pimlico, featured the most celebrated horses and people of the time, including such noted Americans as George Washington, Thomas Jefferson and Andrew Jackson. Congress regularly adjourned so that its members could go to the races in Maryland.

From this rich vein has sprung a vital and durable industry that has survived civil wars, depressions, world wars, and fierce competition from other forms entertainment. Today, the Maryland racing industry is recognized nationally as one of the nation's leaders, with a tradition as a pioneer in many respects, among them:

- ◆ Maryland is home to the nation's first manufacturer of totalisator (betting machine) systems, American Totalisator, now in Hunt Valley.
- ◆ Maryland was the first state to have year-round racing at major tracks.
- ◆ Maryland developed the first state breeders' incentive program, created in 1962 by legislative act.
- ◆ Maryland is home to the Preakness Stakes, second leg of the American Triple Crown and one of the racing world's most valuable assets.
- ◆ Maryland is home to the first event to highlight a state breeding industry, the Maryland Million, which has subsequently been imitated in 14 other states.

Maryland racing is also an irreplaceable part of the state's agricultural economy. Over 700 Thoroughbred and Standardbred farms occupy more than 200,000 acres of farmland in the state, providing significant buffers to development and preserving scarce "green" space. Unlike many states which have pockets of "horsey" areas, Maryland's breeding and racing activities touch virtually every jurisdiction in the state.

While studies analyzing the economic impact of Maryland racing have reached varying conclusions because of differing methodologies, it is generally agreed that racehorse breeding and racing produce between \$700 million and \$1 billion annually in economic activity in the state, resulting in thousands of jobs, including many entry-level and blue collar positions.

Buoyed by inter-track wagering, off-track betting and full-card simulcasting, the Maryland wagering network generated more than \$500 million in betting turnover in 1998, but wagering in the state has been relatively static for the last three years while nearby Delaware and West Virginia tracks have seen their earnings and purses bolstered by slot machines.

These changes in the marketplace have significantly altered competitive circumstances in the mid-Atlantic region, and Maryland finds its pre-eminence in the racing and breeding community at risk. Recent legislative initiatives have provided valuable assistance to purses, breeders' funds, and event marketing efforts, but a broader investment program will be necessary if the racing industry in Maryland is to grow to new and necessary levels.

Maryland racing has, over almost three centuries, evolved into a meaningful aesthetic and economic asset to the State's quality of life. As the only industry in Maryland to be regulated by the State while, at the same time, competing with the State, racing occupies a unique and sometime precarious position.

Its preservation and enhancement will require a future partnership with the state government that recognizes the industry's intrinsic value to Maryland and the state's fundamental role in determining the future course of the industry. Maryland, with a diminished or decimated racing industry, would be a poorer place.

Recommendations

In arriving at our recommendations we have been guided by these principles.

1. Horse racing is a very important industry for Maryland and deserves public support; particularly in light of the public support now received by competitive activities (lottery, major league baseball and football).
2. Our recommendations should be designed to foster investment and the ability to offer a fully competitive product in an increasingly competitive environment.
3. Our recommendations should try to foster unity in the horse industry by eliminating the friction points that are now so evident.

A number of the recommendations we are making are matters that can be taken up immediately by the 1999 General Assembly and, in our opinion, should be, since in most instances immediate relief is important. Our other recommendations require further analysis and are couched in those terms. Should this Commission be reauthorized, we propose to further examine those issues and take appropriate action.

The 1999 Financial Relief Package

A. Purse Supplements: Both the National and Maryland witnesses who appeared before the Study Commission stressed the importance of keeping pace with purses paid in Delaware. Delaware has announced that it will add 1,000 new slot machines to those it has already placed in its race tracks. As an example of what this means in dollars, the average daily pay out in Maryland thoroughbred purses is approximately \$180,000 per racing day. With the addition of new slot machines in Delaware the industry realistically expects purses in Delaware to rise to about \$250,000 per day. Without the 1998 financial assistance package, Maryland Thoroughbred purses would have been in the \$155,000 per day range. The Study Commission therefore recommends \$20 million in purse supplements to be divided between the thoroughbred and standardbred tracks on a 70/30 split. With assistance at that level, Maryland's thoroughbred purses will pay out at approximately \$210,000 per racing day and thus keep pace somewhat with Delaware's expenditure. Although not to the same degree, this will have a similar effect on Maryland harness purses as well.

B. Marketing Assistance: The Study Commission recommends maintaining the current level of funding for marketing as well as the matching fund concept brought forward in the 1998 package. It is also recommended that the Department of Labor, Licensing and Regulation (DLLR) maintain control of the funds in order to assure that the industry is preparing appropriate marketing plans and working cooperatively in partnership with the various components of the industry. Unfortunately, as of January 1999, the tracks have not fully complied with the requirements of the last year's legislation which requires submission of a marketing plan to DLLR for approval.

The marketing assistance legislation enacted during the 1998 General Assembly Session allocated \$1.5 million to a matching fund program. The first \$500 million could be distributed to the tracks to the extent that they provided appropriate receipts to demonstrate that they were entitled to reimbursement. In order to obtain reimbursements from the remaining \$1 million, the tracks were required by the legislation to submit a plan to the Department of Labor, Licensing and Regulation ("DLLR") for approval. The legislation requires DLLR to approve only those plans that take into consideration the recommendations advanced by the University of Maryland in its October 1998 marketing study. As of March 1, 1998, the thoroughbred tracks have not submitted their marketing plans to DLLR for approval.

While it is too early to evaluate whether the program enacted in 1998 will accomplish the General Assembly's objectives, we recommend another \$1.5 million in matching funds to continue this program at its initial level while the program is fully evaluated.

The total cost of the new financial aid package recommended by the Study Commission is \$21.5 million.

Statutory and Regulatory Reform Proposals

A. Telephone Account Wagering - This proposal is the most critical source of incremental revenue. Mark Wilson, President of TVG, stated his company, backed by some of the largest U.S. media and technology companies, is prepared to invest \$75 million by year end '99 and a further \$135 million by the end of 2000. They conservatively predict revenue to the Maryland Horse Industry at \$25 million per year after a three to five year phase in period. The Racing Channel will be designed to encourage not only betting, but new interest in the sport, particularly thoroughbred ownership and attendance at the track. In fact the near term financial benefits might be more substantial without the promotional aspects to grow the sport. Nevertheless the emphasis on attracting more fans and owners is worth sacrificing some of the short term financial gain. The Commission also feels the safeguards related to compulsive or underage gambling were

well thought out and adequate. For instance, by using credit card information and a 'PIN' system, minors will not have access to the wagering portion of the service. Furthermore, the channel will also have a built in "cooling off period" when bettors have exhausted their preestablished account limit.

We also believe the alternative to not implementing telephone account wagering would be devastating to Maryland's horse industry by resulting in significant lost business. We are convinced many of Maryland's most active bettors already have phone accounts elsewhere (N.Y., Penn., Conn., or offshore). Their activity is now limited by the difficulty of seeing races they bet on carried live. As this changes with the racing channel their numbers and betting will increase with no benefit to the Maryland Racing Industry except for the approximately 3% fee split between the Maryland tracks and purse account if they happen to bet on a Maryland race. If they bet on a non-Maryland race, Maryland will get nothing.

We believe that State law permits the Maryland Racing Commission to enact regulations implementing telephone account wagering and we strongly urge the MRC to move ahead.

B. Crossbreed Revenue Sharing - Prior to 1993, racetracks in Maryland, both thoroughbred and harness, were almost exclusively focused on live racing. Single-race simulcasts were added to live racing cards in the late 1980's, mostly on weekends and holidays.

Historically, thoroughbred racing was conducted in the afternoon and harness racing in the evening, a custom recognized in law by a statute passed in 1984 which directed that a thoroughbred licensee could not conduct racing after 6:15 p.m., with minor exceptions.

Inter-track wagering began in 1988, permitting the thoroughbred licensees to simulcast their live racing to the state's other thoroughbred tracks and harness licensees to simulcast to other harness tracks.

Thus, through the end of 1992, if a customer wished to bet on a thoroughbred in Maryland, they could only do so at a thoroughbred track in the afternoon, and only on live racing or the occasional simulcast race from another state. The same was true at night for harness customers.

Passage of off-track betting and full-card simulcasting legislation in 1992 and early 1993, respectively, brought about changes in Maryland racing that dramatically increased wagering activity in the state and, at the same time, required a far more complex structure which included live racing and cross-breed simulcasting at live sites, inter-track operation, and off-track facilities.

For example, the existence of the 6:15 law meant that simulcasting of thoroughbred races after 6:15 p.m. required consents and negotiations among track, horsemen and breeders groups from both elements of the industry.

The licensees have been operating under the terms of a so-called Facilities Use Agreement since the advent of full-card simulcasting in April of 1993. This agreement, which has been modified several times provides the framework for day and night cross-breed simulcasting, with the attendant logistical and revenue distribution mechanisms.

Although the expanded wagering has produced revenue enhancements for the licensees, purses and breeders' funds, it has become cumbersome and, at times contentious because of concerns over proprietary interests in signals and times of day.

In essence, wagering in Maryland has grown very little over the past three years, and artificial restraints and disincentives built into the system because of proprietary concerns, some emanating from statutory barriers erected before anyone conceived of full-card simulcasting or off-track betting, are now constricting growth.

An effort has been underway for over a year to develop a revolutionary revenue sharing agreement that would, among other things, divide all pari mutual revenues generated among Laurel,

Pimlico and Rosecroft Raceway on an 80-20 basis (80 percent thoroughbred, 20 percent harness) for the term of the agreement. Concerns by the thoroughbred breeders and horsemen over the long-term effects of such an agreement, particularly with the 6:15 law and other simulcast statutes still in place, has prevented finalization of this proposal.

A recent meeting of harness and thoroughbred interests produced a new concept for dealing with these issues that could, if agreed to by the various constituent groups, facilitate the completion of a revenue sharing plan. This concept involves:

A. Revising the 6:15 law (Sec 11-504) so that it applies to live racing only, eliminating any reference to simulcast consents and requiring agreement among all parties for live thoroughbred racing after 6:15 p.m.

B. Revising the in-state simulcast statute (Sec 11-804) to permit any licensee to import any out-of-state race, thoroughbred or standardbred, afternoon and evening, subject to the consent of the horsemen that race at the licensee's tracks and breeders of the horses that race at that track.

C. An agreement among all parties to waive the consent requirements in the Federal Interstate Horse Racing Act for a period in excess of any revenue sharing agreement.

D. Finalization of the revenue sharing agreement currently being reviewed by the parties.

If agreement can be reached on the above concepts, revenue sharing could be put into place quickly, with the thought that, at the end of the contract period, the respective breeds could, if they chose, then operate their facilities in a free-market atmosphere, constrained only by business circumstances or any state-imposed requirements that would be designed to protect the public interest.

The Commission believes that an industry developed solution is the most effective way to end the existing impasse and pave the way toward an expansion of the Maryland wagering network, and it strongly urges all parties to try to effect this concept as soon as possible.

C. Insurance Assessments - The Jockey Injury Compensation Fund, Inc. provides workers compensation insurance coverage for all jockeys covered by the relevant provisions of the Labor and Employment Article. The Racing Commission is required to assess each licensed owner and trainer of a thoroughbred horse an amount calculated to pay the cost of the insurance premium. The Commission collects the assessment at the time each owner or trainer applies for a license and the assessment is calculated by estimating the number of licenses that will be issued as well as the amount of the payroll and experience rates. Since the estimates are only based on past experience, it is conceivable that an under estimate could result in an insufficient collection of funds to pay the insurance premiums.

It also appears to the Racing Commission that the present system of equal assessments is unfair to the licensees because it does not take into account variable risks or exposures. An individual who races one horse once a year pays the same assessment as an individual who owns many horses and races many times during the year. A more equitable system and one that eliminates the uncertainty of the current system would be to pay the workers compensation insurance premium from funds derived from the handle and allocated to purses. Since the monies would be taken from funds that otherwise would go to purses, the risk and exposure would be spread evenly over every race and purse. This would also allow projections of insurance costs to be made on a multi-year basis, making it easier to provide multi-year licensing. Furthermore, the license itself would be less expensive and thus encourage horse ownership. We therefore recommend legislation to enact this proposal.

Long Term Issues to Explore After the 1999 General Assembly Session

Facilities and Ownership Issues

The Commission believes that an industry developed solution is the most effective way to end the existing impasse and pave the way toward an expansion of the Maryland wagering network

and it strongly urges all parties to try to effect this concept as soon as possible. The 1998-1999 Commission has in a preliminary fashion carried forward the 1997 Commission's Reports suggestion that an analysis be made of the various forms of track ownership found in the United States. Wayne Rhodes and others provided us with general information and Bruce Garland of the New Jersey Sports and Exposition Authority discussed the history and form of track ownership in New Jersey with particular reference to the Meadowlands and Monmouth Park.

Not only has the Commission been interested in the different ways tracks are owned and managed but we have also considered whether a new track should be constructed.

We share the widespread dissatisfaction expressed to us concerning the current management and physical condition of thoroughbred track facilities. There are many broad strategic issues that must be addressed if Maryland racing is to ascend to the "major league" of thoroughbred racing.

In our hearings we have been presented with questions about the appropriate role of public funds to address capital improvement needs.

Any consideration of upgrading facilities must first focus on Pimlico as the home of the Preakness. The importance of the Preakness to Maryland racing can not be overstated. Although significant improvements have been made to Laurel, problems at Pimlico remain of concern. We recognize that Pimlico constitutes a difficult set of problems and issues if it is to function as both a training and racing facility. The site is simply too congested. The task of rebuilding all the barns and also providing some very necessary patron amenities on the front side (paddock, etc.) is probably impractical and too costly. But if there is a way to create facilities in Maryland that permit Pimlico to function only as a racing facility, the challenge would be manageable. If Pimlico's barns were not needed to support horses in training, all barns on the front side could be eliminated allowing room for a new paddock and other patron

amenities. Barns on the back side would be more than adequate to handle the daily racing population. We are concerned that in the absence of a detailed discussion of this sort of strategic change the task of rebuilding Pimlico is too great and nothing meaningful will be done.

If Pimlico functions poorly as a training facility and Bowie has other limitations, including being a substantial cost burden to the MJC, the question is posed as to how we provide adequate training facilities for the Maryland horse population. The Commission has viewed this issue in the context of our belief that "first class" facilities, comparable to Camden Yards or the two new football stadiums, are required for Maryland racing; that public monies will not be available for such upgrades at a privately owned facility; and that there are a number of successful examples of "publicly" owned tracks (New York, New Jersey, Del Mar in California). While it is in many ways premature for a specific plan, it is nevertheless important to provide some vision of what might be accomplished.

We are very interested in the statements and views of the leadership of the Maryland State Fair that they are outgrowing their current facilities, but would want to continue to operate a race meet at any new location. The needs of the State Fair could complement the State's need for a new racetrack and training facility. We believe that study should be given to whether a strategically located tract of land could serve as a new home for the State Fair and home to a new race track. We have not reached any definitive conclusions on these issues and clearly more conceptual analysis, followed by detailed financial analysis is needed.

We do, however, believe that Maryland racing has stagnated and that a fresh approach is needed. A bold concept similar to Baltimore's downtown redevelopment may have the best chance of success and so the current situation calls for decisive leadership from the Governor and the Legislature. We also believe that the Maryland Stadium Authority may, after some further work by this Commission, be the appropriate vehicle to ensure that proper consideration is given to these concepts.

Year Round Racing

A number of witnesses before the Commission discussed what makes a successful race meet, which seemed to generally be defined as good racing, good purses with excellent handle and attendance. The meets most cited were Saratoga, the Keeneland Fall and Spring meets, Del Mar and Monmouth. They are generally described as boutique meets; meaning within the industry as being of short duration in a "fresh" setting. They are in that sense far removed from the year round nature of Maryland racing. We are not suggesting a drastic cutback in the number of racing days, but less racing with definable breaks in the schedule could have material benefits. First, it might allow race fans a time to recharge their enthusiasm. Almost all other sports rely on a spirit of anticipation to improve attendance. Maryland racing (with the exception of the Virginia hiatus) never opens because it never closes. Second, during certain parts of the year when attendance and handle are below average, it would be beneficial to not race but accumulate simulcast money in the purse account. This would allow horsemen to race for higher daily purses.

At a time when the racing industry is asking for substantial public support for purses, it is appropriate to consider reductions in the number of racing days as a way of helping the purse structure remain competitive with other racing jurisdictions.

We encourage the Racing Commission, the tracks and horsemen to study this issue.

Conclusion

We intend this interim report to be a frank assessment of Maryland racing. We expect it to be controversial and that its recommendations will not entirely please any of the interested groups and individuals.

To the extent our recommendations constitute significant departures from the status quo or require significant expenditures, we ask for all involved in racing to ask themselves whether they believe that a continuation of the way Maryland racing is being managed will lead to success or whether five years from

now, it will be the same arguments at a time when other racing jurisdictions have passed Maryland by.

To the Governor and General Assembly we state that this is an important industry in Maryland deserving of public support. We hope this Report will stimulate the various industry groups, thoroughbred and standardbred, to come to the Governor and General Assembly with proposals which sacrifice individual advantage in favor of the more general public purpose that puts Maryland racing in the major league where it belongs.

Minority Report

On February 26, 1999, a majority of the Commission voted to remove the section entitled "New Thoroughbred Licensees" from the draft report. Six Commission members voted to remove the section from the draft report and five voted to include the section in the final report. Commission member John Franzone became unavoidably unable to attend the February 26 voting session a few hours before the scheduled meeting. Four of the Commission members who voted to adopt the section, joined by Mr. Franzone, file this minority report in support of including the language from the draft report, which reads as follows:

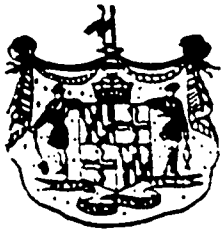
New Thoroughbred Licensees - Since there is a general concern about the financial and management capabilities of the Maryland Jockey Club it makes no sense in our view to continue the legislative provision which provides, in effect, that there is only one entity that can conduct a thoroughbred race meet in Maryland. We believe that statutes and regulations should foster investment, particularly in areas where investment has historically proven to be inadequate. This legislative monopoly inherited by the Maryland Jockey Club has, in fact, encouraged indifference to repeated requests by horsemen's groups and the Maryland Racing Commission for facilities improvements and marketing initiatives. We also note that this provision is not found in other major racing jurisdictions. In fact in some states, California as an example, the Racing Commission has powers to review and approve consolidations to prevent one entity from becoming too powerful. We therefore recommend an amendment to BR 11-510 to: (1) authorize the Maryland Racing Commission to issue a license or award racing days to one or more entities in addition to the Maryland Jockey Club of Baltimore City, Inc. (Pimlico) and the Laurel Racing Association, Inc. (Laurel).

Respectfully submitted,

Stuart S. Janney, III, Chairman
John B. Franzone
Granville D. Trimper

Senator Barbara A. Hoffman
Senator Walter M. Baker

Appendix A



The State of Maryland
Executive Department

EXECUTIVE ORDER
01.01.1998.15

Commission to Study Ways to Improve the Financial Viability
of the Horse Racing Industry

- WHEREAS, The State of Maryland has a strong economic interest in a healthy and viable horse racing industry and continues to seek ways to preserve, strengthen and protect this industry without encouraging gaming opportunities beyond horse racing itself;
- WHEREAS, The Commission to Study Ways to Improve the Financial Viability of the Horse Racing Industry was created through Chapter 750 of the Acts of the General Assembly of 1997 to study and recommend ways to keep horse racing financially viable in the State;
- WHEREAS, The Commission met throughout the 1997 interim and issued its report on November 1, 1997 making recommendations in the areas of purse assistance, regional and national marketing and deregulation which have met with widespread acceptance within the industry and with the broader public;
- WHEREAS, The Commission also recommended that it meet again during the 1998 interim to continue its deliberations and review the progress made toward achieving its goals;
- WHEREAS, Based on the recommendations of the Commission, the Governor and General Assembly enacted measures during the 1998 Session to enhance State assistance for purses and bred funds and to fund studies on the economic impact of the horse racing industry, State assistance to the industry and marketing survey research and strategies; and
- WHEREAS, It is desirable for the Commission to continue its oversight efforts and monitor the implementation of its recommendations in preparation for the 1999 Session.
- NOW, THEREFORE, I, PARRIS N. GLENDENING, GOVERNOR OF THE STATE OF MARYLAND, BY VIRTUE OF THE AUTHORITY VESTED IN ME BY THE CONSTITUTION AND THE LAWS OF MARYLAND, HEREBY PROCLAIM THE FOLLOWING ORDER, EFFECTIVE IMMEDIATELY:

- A. There is a Commission to Study Ways to Improve the Financial Viability of the Horse Racing Industry.
- B. The Commission shall be composed of 12 members as follows:
- (1) Four members of the Senate of Maryland appointed by the President of the Senate;
 - (2) Four members of the House of Delegates appointed by the Speaker of the House; and
 - (3) Four members appointed by the Governor.
- C. The Governor shall designate the chairperson of the Commission.
- D. Staffing for the Commission shall be provided by the Department of Labor, Licensing and Regulation and the Department of Legislative Services.
- E. The members of the Commission may not receive compensation for their services. Members may be reimbursed for their reasonable expenses incurred in the performance of their duties, in accordance with Standard State Travel Regulations as provided in the State budget.
- F. The Commission shall:
- (1) Continue to study ways to improve the financial viability of the horse racing industry;
 - (2) Monitor the implementation of the recommendations contained in the Commission's 1997 report and the effects of State racing assistance provided during the 1997 and 1998 Sessions;
 - (3) Receive periodic reports on the various studies required under Chapter 519 of the Acts of 1998;
 - (4) Solicit input from a broad range of the industry and the wider public about options for improving the environment for horse breeding and racing in Maryland; and
 - (5) Develop recommendations that it considers appropriate for changes in policy, statutes, regulations or organization to keep horse racing financially viable in the State.

G. On or before December 31, 1998, the Commission shall report its findings and recommendations to the Governor and the General Assembly.

H. This Executive Order shall terminate and be of no effect after June 30, 1999.

GIVEN Under My Hand and the Great Seal of the State of Maryland, in the City of Annapolis, this 19th Day of *June*, 1998.



Parris N. Glendening
Parris N. Glendening
Governor

ATTEST:

John T. Willis
John T. Willis
Secretary of State

Appendix B

PIMLICO RACETRACK NEIGHBORHOODS TASK FORCE

Horine V. Robinson, Chair
PIMLICO GOOD NEIGHBORHOOD ASSOCIATION

Colvin Anderson
NORTHWEST BALTIMORE CORPORATION

Ronald J. Bilby
LEVINSON / SUNSET ASSOCIATION

John Clinton
PIMLICO MERCHANTS ASSOCIATION

Polly Duke
MT. WASHINGTON
IMPROVEMENT ASSOCIATION

Rev. Kevin Elliott
THE LORRAINE CHURCH II

William H. Engleman
BALTIMORE JEWEL COINTEL

Janie Gert
PARK WEST MEDICAL CENTER

Donald Giller
SINAI HEALTH SYSTEM

Sharr Macklin
TID DEVELOPMENT CORPORATION

Barbara Scott
CITYLINK COMMUNITY ACTION ASSOCIATION, INC.

Mark Shapiro
CHAI

Itis I. Smith
GLEN NEIGHBORHOOD
IMPROVEMENT ASSOCIATION

Reverly Thomas
PARK / RITE COOPERATIVE COMMUNITY

Jean Yarbrough
PARK HEIGHTS NEIGHBORHOOD
COMMUNITY COUNCIL

Alfred W. Barry, III
Planning Consultant

MEMORANDUM

TO: Stuart Janney
FROM: Jean Yarbrough *Jean Yarbrough*
DATE: March 1, 1999
SUBJECT: Suggested Changes to the Janney Commission's Report

Based on the discussions that took place at our meeting on Friday along with my own review, I would like to recommend that the following changes be incorporated into the final Commission report.

1. Page 7. The Task Force's official name is the Pimlico Racetrack Neighborhoods Task Force.
2. Discussion of Long Term Issues. It is important that any discussion concerning the physical maintenance of Pimlico Racetrack be framed within the context of the Planned Unit Development. It will be equally important to note that many of these conditions have not been met and the affect this had on the relationships between the Maryland Jockey Club and the surrounding communities. A memo was sent to Mark Feinroth providing additional details on the PUD. Future discussions of physical improvements should take place within a renegotiated PUD that includes strict enforcement mechanisms.

It is critical that discussions concerning the racetrack's future include the community. The community believes that the track has the potential to act as an economic engine, providing jobs and spin-off opportunities that will provide the sustainability that has been missing from northwest Baltimore.

This section also makes inferential reference to the possibility of converting Pimlico to a more boutique track comparable to Saratoga. During their meeting the Task Force has discussed this as an option and I would appreciate having this idea stated more strongly as a recommendation that deserved further study and consideration.

If you have any questions, please feel free to call me 410-466-6494

Appendix C

LAW OFFICES
O'MALLEY, MILES, NYLEN & GILMORE, P.A.

Annapolis:
2007 Tidewater Colony Drive
Suite 2B
Annapolis, Maryland 21401
(301) 970-2538

P.O. Box 689
Greenbelt, Maryland 20768
Street Address:
11785 Beltsville Drive
Tenth Floor
Calverton, Maryland 20705
(301) 572-7900
Fax No. (301) 572-6655

Southern Maryland:
The Smallwood Building
2670 Craia Highway, Suite 207
Waldorf, Maryland 20601
(301) 899-2200

Edward W. Nylén
Sally Presler McCash
John P. Davey
Marilyn J. Brasier
Mark S. Lynch
Aluanda R. Drain
Jamie L. DeSisto

John D. Gilmore, Jr.
Matthew D. Osmos
André J. Gingles
Gerald W. Ueckermann, Jr.
Stanley J. Klos, Jr.
Daphna Peled

John P. McDonough
Dario J. Agnolutto
John P. McKenna, Jr.
Michael L. Dailey
William J. Selle
Robert D. Lourie

F. Robert Troll, Jr.
Mark G. Levin
Vernell B. Arrington
John K. Nilan
Abigale Bruce-Watson
Antoinette H. Mester

Of Counsel:
Peter F. O'Malley

March 11, 1999

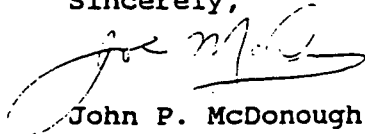
Mark Feinroth
Department of Labor, Licensing
and Regulations
500 North Calvert Street
Suite 401
Baltimore, MD 21201

Dear Mark:

Please find enclosed draft legislation proposed by Cloverleaf Enterprises, Inc. to implement the recommendations of the Draft Governor's Commission to Study Ways to Improve the Financial Viability of the Horse Racing Industry contained at B. Crossbreed Revenue Sharing at pp. 16-18.

Thank you for your attention to the enclosed.

Sincerely,



John P. McDonough

Enclosure

§ 11-504. Restrictions on racing times.

(a) LIVE Racing after 6:15 p.m. -- A licensee may not hold LIVE racing after 6:15 p.m. unless:

- (1) circumstances beyond the control of licensee causes a delay;
- (2) the racing day is of national prominence; or
- (3) [the racing consists of betting on races held at an out-of-state track, and the racing is:

- (i) authorized under § 11-804 of this title; and
- (ii) approved by the harness track licensee whose track is closest to the licensee's track, the group that represents a majority of the owners and trainers who race horses at that harness track, and the group that represents a majority of the harness breeders in this State.] APPROVED BY THE HARNESS TRACK LICENSEE WHOSE TRACK IS CLOSEST TO THE LICENSEE'S TRACK, THE GROUP THAT REPRESENTS A MAJORITY OF THE OWNERS AND TRAINERS WHO RACE HORSES AT THAT HARNESS TRACK, AND THE GROUP THAT REPRESENTS A MAJORITY OF THE HARNESS BREEDERS IN THIS STATE; AND

(4) APPROVED BY THE GROUP THAT REPRESENTS A MAJORITY OF THE OWNERS AND TRAINERS AT THE LICENSEE'S TRACK AND THE GROUP THAT REPRESENTS A MAJORITY OF THE THOROUGHBRED BREEDERS IN THIS STATE.

(5) IF A LICENSEE IS PERMITTED TO HOLD LIVE RACING AFTER 6:15 P.M., THE LICENSEE MAY NOT HOLD LIVE RACING AFTER 2 A.M., UNLESS CIRCUMSTANCES BEYOND THE CONTROL OF THE LICENSEE CAUSE A DELAY.

(b) Sunday racing. -- (1) Mile thoroughbred racing may not be held on a Sunday unless:

- (i) the Commission approves; and
- (ii) the racing begins at noon or later.

(2) The Maryland State Fair and Agricultural Society, Inc., may not hold a race on a Sunday except during the Maryland State Fair.

§11-606 [Racing after 2 a.m.] RESTRICTIONS ON RACING TIMES

(a) RACING BEFORE 6:15 P.M. - EXCEPT FOR THE LICENSEE LOCATED IN WORCESTER COUNTY, A LICENSEE MAY NOT HOLD LIVE RACING BEFORE 6:15 P.M. UNLESS:

- (i) THE RACING DAY IS OF NATIONAL PROMINENCE; OR
- (ii) APPROVED BY THE THOROUGHBRED TRACK LICENSEE WHOSE TRACK IS CLOSEST TO THE LICENSEE'S TRACK, THE GROUP THAT REPRESENTS A MAJORITY OF THE OWNERS AND TRAINERS WHO RACE HORSES AT THAT THOROUGHBRED TRACK, AND THE GROUP THAT REPRESENTS A MAJORITY OF THE THOROUGHBRED BREEDERS IN THIS STATE; AND
- (iii) APPROVED BY THE GROUP THAT REPRESENTS A MAJORITY OF THE OWNERS AND TRAINERS AT THE LICENSEE'S TRACK AND THE GROUP THAT REPRESENTS A MAJORITY OF THE HARNESS BREEDERS IN THIS STATE

(b) RACING AFTER 2 A.M. - A licensee may not hold live harness racing after 2 a.m. unless circumstances beyond the control of the licensee cause a delay.

§11-804. Betting on out-of-state races.

(a) Construction of section - The intent of this section is similar to that of the Interstate Horseracing Act of 1978, 15 U.S.C. §§ 3001 through 3007.

(b) Betting on out-of-state races allowed - ~~If the Commission approves, a~~ A mile thoroughbred racing licensee or harness racing licensee may contract to hold pari-mutuel betting on a thoroughbred and standardbred races that ~~is~~ are held at an out-of-state track where betting on racing is lawful.

(c) Time and place of pari-mutuel betting - Pari-mutuel betting under this section may only occur:

(1) on a racing day when the Commission has authorized the licensee to hold racing; and

(2) (i) at the track of the licensee;
(ii) at any track where pari-mutuel betting on races on the racing program of the licensee for that day is authorized; or
(iii) at a satellite simulcast facility.

(d) Computation of breakage and takeout - (1) The breakage and takeout for pari-mutuel betting under this section shall be computed in the way normally applicable to pari-mutuel betting on live racing the licensee holds.

(2) From the takeout the licensee shall deduct:

(i) the State tax on all mutuel pools;
(ii) the amount to be paid under the contract to the out-of-state track; and
(iii) the cost of transmission.

(3) The licensee shall then allocate the rest of the takeout in the way applicable to the live racing that the licensee holds.

(e) Contract subject to approval - A contract with an out-of-state track under this section is subject to the approval of the group that represents a majority of the owners, breeders and trainers who race horses at the track of the licensee who enters into the contract with the out-of-state track. ~~and the group that represents a majority of the applicable breeders in this State.~~
(An. Code 1957, art. 78B, § 31; 1992, ch. 4, § 2; ch. 473, §2.)

Appendix D

AN ECONOMIC DEVELOPMENT MODEL FOR THE FUTURE OF MARYLAND RACING

Competition for both the entertainment dollar and the gambling component of it has never been greater, and anyone selling a consumer product or service today faces what sometimes seem to be insurmountable competitive challenges.

The Maryland racing industry has, as have its counterparts elsewhere to varying degrees, gone through a series of business cycles since the mid-1980's, including consolidations of track ownership, the advent of inter-track wagering, the establishment of an off-track betting network, the introduction of full-card simulcasting, and the onset of cross-breed simulcasting.

This has led to a rather complex set of arrangements between the Thoroughbred and Standardbred industries which, despite their sometimes cumbersome nature, have resulted in increased wagering handle statewide, (more than \$550 million in 1998). The result is an industry in somewhat better operating condition than in the early '90's, when purses were being cut and the survival of the state's tracks was in doubt.

Meanwhile, a combination of factors—including expansion of gambling—has enhanced the competitive positions of nearby racetracks and the horsemen who race at those tracks. Despite the changes in the business in Maryland brought about by simulcasting and expansion of the wagering network, the tracks are unable to generate returns that allow them to make state-of-the art improvements in their customer and/or training facilities.

Breeders and owners, uncertain of future prospects for Maryland racing, are reluctant to increase investments or expand activities.

Clearly, there is a need for a plan that has the scope to assure the sort of growth in attendance and betting handle that will improve business conditions and attract new investment.

To generate the aggregate dollars for competitive purses, breeders' funds, marketing, and customer service enhancements, facilities improvements and

Page Two

on-going capital requirements would necessitate pari mutuel handle gains of \$200 million or more in Maryland, (from the \$550 million level in 1998) augmented by increases in out-of-state wagering, mostly from electronic account betting.

Below are listed a series of concepts to put Maryland racing on a path that will lead to higher visibility and new prosperity for horse racing in the state. They envision state investments that will provide a growth pattern for the sport that not only solidifies the industry but steadily eliminates the need for state involvement.

They are:

I. Marketing investment

1999 -- \$6 million
2000 -- \$5 million
2001 -- \$2.5 million
2002 -- \$1 million
2003 -- \$0

These estimates are based on the premise that over the four-year span of the investment, attendance and wagering handle in the Maryland network can be boosted by an aggregate of 20%, with one result being that the industry can sustain an on-going marketing effort at the \$8 million a year level from industry sources.

II. Purse/breeders fund supplements

1999 -- \$20 million
2000 -- \$15 million
2001 -- \$10 million
2002 -- \$5 million
2003 -- \$0

Purse/breeders' funds supplements at the suggested levels will keep Maryland tracks reasonably competitive with Delaware purses and Pennsylvania's

Page Three

breeders funds. Aggregate handle growth to the level mentioned earlier would generate funds that could replace supplements over the four-year period as outlined.

Funding for the supplements should be linked to lottery proceeds and elimination of the existing pari mutuel tax, with those monies directed to the purse/bred fund supplemental pool.

III. Account/telephone wagering

For Maryland to participate in the Television Games Network (TVG) project, there is no investment required other than the promulgation of account wagering regulations to facilitate the statute that permits telephone wagering in the state.

TVG has indicated that they believe Maryland will generate net revenue of at least \$24 million after a ramp-up period of three years or less. Taking a conservative approach to those numbers, our estimates are as follows:

1999 --	\$2 million
2000 --	\$8 million
2001 --	\$14 million
2002 --	\$20 million
2003 --	\$24 million

The largest increases in revenue are likely to come in years two through four, although the network may expand so rapidly that these projections turn out to be conservative. The growth potential from account wagering could be phenomenal, given the experiences in New York and Pennsylvania, which operate relatively antiquated systems whose signals can only be accessed by a relatively modest number of their customers.

IV. OTB development

Investment in new off-track facilities, and the potential return from them, is very much a function of location. To maximize handle and return, new OTB's should be located in Maryland's primary markets, with the understanding that to do so will cannibalize the existing wagering network, especially the tracks, to some degree.

Assuming three sites in high-density areas (Baltimore City, Baltimore County, Montgomery County) and a medium-density location such as Hagerstown, handle should reach the \$150 million level annually from those sites. Even if the cannibalization effect was 30%, probably an exaggeration, the incremental handle from these sites should exceed \$100 million.

Investment required: \$8.75 - \$9 million for four sites

Incremental wagering handle: In excess of \$100 million

While this investment strategy does not address the existing OTB system, the much higher profile the industry would enjoy with the marketing program outlined earlier, which would incorporate OTB's in advertising and promotions, should increase attendance and handle at the existing locations, providing incentives to upgrade and expand those facilities.

V. New Race Track

There has been recent discussion of the possibility of building a new race track in Maryland, presumably a state-financed and owned facility located in an area of high population density (i.e., Baltimore City or County).

Clearly, this is a far-reaching concept that requires analysis well beyond the scope of this presentation, including such factors as:

- A. Positioning with regard to existing tracks
- B. Location
- C. Racing dates allocations

- D. Financial structure
- E. Availability of training facilities
- F. Other uses of the facility

Certainly a modern, state-of-the-art facility located in a highly accessible area would stimulate live racing attendance and wagering handle, and would showcase Maryland racing nationally, attracting such events as the Breeders' Cup and providing a platform for the enhancement of Maryland's major racing events.

In addition, new training facilities could allow the phase-down and consolidation of existing Thoroughbred training facilities, thus saving considerable operating expense and providing horsemen with a superior training environment.

In combination with an aggressive marketing program, an enhanced OTB system, and telephone account wagering, a new track would raise the entertainment profile of Maryland racing and address many of the long-term facilities issues, both customer and horsemen related, the industry now faces.

VI. Summary of Investment Needs

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Marketing	\$6 mil.	\$5 mil.	\$2.5 mil.	\$1 mil.	0
Purses/bred funds	\$20 mil.	\$15 mil.	\$10 mil.	\$5 mil.	0
OTB's	\$9 mil.	0	0	0	0
New track	?				

The stated investment requirements are based on significant increases in wagering handle from several sources, including marketing driven growth (5% annual growth for four years), greatly increased handle from an enhanced OTB system (\$100 million in additional handle annually within four years), and telephone/account wagering (\$24 million annually after five years).

Page Six

These gains, independent of a new racing facility, should allow the industry to be healthier at a much higher level within five years, and self-sustaining. Maryland racing would be experience meaningful growth from the sources identified, which could be substantially augmented by the addition of a new race track.

Maryland
Racing Industry
Marketing
Partnership

A New Road Map For A Maryland Tradition

MARYLAND RACING INDUSTRY

MARKETING PARTNERSHIP

OVERVIEW

In the past months representatives of the key organizations comprising Maryland's racing industry have conducted a series of meetings to explore the benefits of forming an industry marketing partnership. These endeavors have yielded the mutual conclusion that the formation of a Maryland Racing Industry Marketing Partnership would be a progressive, growth oriented initiative.

Following is an outline of the goals, objectives and structure of the partnership and a concept the members believe will provide the resources necessary to support a high-level generic marketing program for horse racing. The concepts set forth emphasize the entertainment value of the sport, and will provide consistent promotion of industry events.

The plan further envisions creative relationships with state agencies that are actively involved in marketing, such as the lottery agency and Office of Tourism.

MISSION STATEMENT

The mission of the Racing Industry Marketing Partnership is to develop and employ strategies and methodologies that cultivate the growth and prosperity of the Maryland Racing Industry and its members.

GOALS

1. Create a working partnership between industry participants that is conducive to the growth and success of the individual partners.
2. Develop an industry marketing strategy and subordinate plans that creates and maximize opportunities
3. Increase the industry's contribution to the state economy

A New Road Map For A Maryland Tradition

MARYLAND RACING INDUSTRY MARKETING PARTNERSHIP

OBJECTIVES

1. Maintain and enhance the Maryland Horse Racing Industry's competitive position with racing endeavors in other states.
2. Gain the benefits of economies of scale by unifying segments of the industry in defined, growth oriented marketing processes.
3. Enhance public awareness of the racing industry and its entertainment value by developing industry marketing and promotion campaigns.
4. Develop a unified approach to publicizing and promoting industry events.
5. Provide a mechanism that affords on-going market research and provides relevant feedback as to consumer trends and needs.

PARTNERSHIP PARTICIPANTS AND ADVISORS

- | | |
|--------------------------------|------------------------------|
| ▪ Maryland Jockey Club | ▪ Thoroughbred Breeders |
| ▪ Cloverleaf Enterprises, Inc. | ▪ Standardbred Breeders |
| ▪ Ocean Downs | ▪ Timonium State Fair |
| ▪ Thoroughbred Horsemen | ▪ Maryland Racing Commission |
| ▪ Standardbred Horsemen | ▪ DLLR (Facilitator) |

STRUCTURE AND COMMITTEES

1. Central Committee
2. Operating Committees
 - a) Promotional
 - b) Industry Awareness
 - c) Research
 - d) Legislative Liaison

A New Road Map For A Maryland Tradition

MARYLAND RACING INDUSTRY MARKETING PARTNERSHIP

INDUSTRY MARKETING - BACKGROUND AND ANALYSIS

Maryland Horse racing is facing a variety of competitive challenges unimaginable two decades ago.

Not only does the Mid-Atlantic region contain 18 operating racetracks, but each state has a large and successful government-operated lottery and Atlantic City hosts the nation's second largest casino market. In addition, slot machines have been integrated into operations at the three Delaware racetracks and at Charlestown Race Course in eastern West Virginia. The additional wagering opportunities at those tracks are drawing more customers and generating additional revenues which flow through to higher purses. Unfortunately, for the Maryland industry it resurrects a declining racing businesses.

Full-card simulcasting and off-track betting, initiated in 1993, stabilized the Maryland industry and provided a brief period of growth in overall statewide wagering. That expansion, however, appears to have reached a plateau, with gross wagering levels relatively unchanged in 1996 and 1997.

State assistance to purses and breeders' funds has allowed those entities to remain somewhat competitive within the region. Fledgling marketing efforts of groups such as the National Thoroughbred Racing Association NTRA and the US Trotting Association, are aimed at giving racing a higher profile with consumers on a national basis. This concept needs to be embraced and amplified at the state and local level where the local market truly drives the sport.

MARYLAND RACING INDUSTRY MARKETING PARTNERSHIP

INDUSTRY MARKETING - BACKGROUND AND ANALYSIS (CONTD)

To re-establish a growth pattern and remain competitive it is increasingly clear that horse racing in Maryland, as elsewhere, needs a shot in the marketing arm. Maryland tracks spent approximately \$2 million on advertising and promotion last year, about 15% of the amount available to the Maryland lottery for promotion. In other words, the fundamental marketing problem for the Maryland racing industry is one of resources, not lack of imagination.

Representatives from the local Thoroughbred and Standardbred breeders' associations, horsemen's groups and racetracks have been meeting since August to discuss industry marketing issues and strategies. Their goal is to develop a strategic plan that addresses the need to broadly increase the sport's public visibility.

BUDGETARY ASSUMPTIONS

For the purposes of discussion, the following budgetary assumptions were made:

Generic Industry Advertising	\$ 4,250,000
Event Promotions	750,000
Advertising Production	500,000
Marketing Research	500,000
Estimated Budget	<u>\$ 6,000,000</u>

MARYLAND RACING INDUSTRY MARKETING PARTNERSHIP

GENERIC ADVERTISING AND EVENT PROMOTION

It is assumed the bulk of the advertising funds will be expended in months other than May, August and September. Expenditures will be based primarily on the current schedule of major events that lend themselves to industry promotion, such as:

- FEBRUARY Winter Springfest at Laurel
Presidents' Day Weekend
- APRIL Maryland Spring Challenge at Pimlico
- MAY Rosecroft's 50th Anniversary
- JUNE Triple Crown
Family Fun Fest at Rosecroft
- JULY De Francis Dash
Ocean Downs Opening (50th
Anniversary)
- AUGUST Wayne Smullin Finals and Miss
Rosecroft
- SEPTEMBER Ocean Downs Season Finale
Rosecroft Summer Blast
- OCTOBER Mane Attraction - Maryland Sire Stakes
Maryland Million
- NOVEMBER Breeders Cup/Breeders Crown
- DECEMBER
through Holiday period and Winter Simulcasting
- JANUARY

A New Road Map For A Maryland Tradition

MARYLAND RACING INDUSTRY MARKETING PARTNERSHIP

GENERIC ADVERTISING AND EVENT PROMOTION (*CONTD*)

Other events will be considered for industry centric promotional events. Possibilities include:

- The Saratoga race meeting
- The Hambletonian, Harness racing's Kentucky Derby
- Days like the Maryland Spring Challenge - a cluster of Maryland-bred stakes and one open stakes (five stakes in total) run the third Saturday in April.

"Cluster" days, such as The Maryland Spring Challenge, when combined with locally driven promotions, like kids' activities, live music/live remotes, premium giveaways, etc., provide instant promotional opportunities. They are particularly effective if placed on or around holidays or seasonal situations.

Our thought is to allocate the advertising on the basis of 80% to generic marketing and 20% to event promotion, the latter of which would blend with generic marketing themes.

The event advertising package may vary according to the nature of the event, with more funds directed at certain events (i.e., Mane Attraction, De Francis Dash, etc.). An eight-event schedule would provide about \$110,000 per event, with about \$30,000 per event for production of creative. The schedule could be allocated to television (70%), print (20%), and radio (10%).

The bulk of the advertising budget (\$3.4 million) will be directed to between-event periods. This would provide about \$270,000 per month for image/awareness advertising, which will be seasonally themed while carrying a consistent industry message (i.e., a slogan, logo, etc.).

MARYLAND RACING INDUSTRY MARKETING PARTNERSHIP

GENERIC ADVERTISING AND EVENT PROMOTION (CONTD)

Obviously the 80/20 blend could shift to something different, such as 65-35 (65% to image/awareness, 35% to events), or a higher percentage could be shifted to creative. If account/telephone wagering becomes a reality in 1999, then it would make sense to move funds in the direction of this initiative, which might include media buys, direct mail and specific promotions aimed at creating awareness of the product and developing customers.

An additional image/awareness alternative would be the development of a local television presence through:

- Production of a weekly anthology show for local television, with live racing, industry news and features (potentially seasonal or geographically based)
- Sponsorship of local sports telecasts with race footage or clips (*the Maryland racing "minute"*)

The cost would vary according to placement, frequency and structure of the show, but assume \$750,000, which would come from the overall ad budget (the \$4.25 million).

GENERIC PROMOTION

A budget of \$750,000 is recommended for an industry awareness program, of which \$350,000 would be allocated to a promotional program that includes:

- Educational programs for schools, youth groups, etc.
- Speakers bureau reaching out to civic groups, clubs, trade associations, etc., i.e., any group with regular meetings.
- Print promo pieces to be placed in visitors' centers, restaurants, hotels, etc.

MARYLAND RACING INDUSTRY MARKETING PARTNERSHIP

GENERIC PROMOTION (CONTD.)

- Industry exhibit to travel to civic events (fairs, craft shows, etc.) around the state throughout the year, with emphasis on live demonstrations (blacksmiths, equine dentists, etc., with pony rides, interactive exhibits, et.al.).
- Promotional and informational videos for distribution to libraries, schools, selected officials, etc.
- Newspaper special sections in the Sun and/or Post emphasizing the scope of the statewide industry.
- Community days at the tracks, combining community events with live racing programs.
- Large scale Horse Fair, with racing and pleasure horse exhibits and demonstrations, to be rotated annually among the racetracks.
- Promotional items, such as posters, buttons, magnets, bumper stickers, etc., to be distributed at public programs.

The Generic Promotion concepts listed above, and others, will be supported with a \$400,000 advertising program aimed at the local markets in which the exhibition or other public programs would appear. The \$400,000 includes both electronic and print buys and the necessary creative.

This Generic Promotion segment is independent of the image/awareness campaign which will be the cornerstone of the plan, however, all programs under the Industry marketing scenario will share logos, slogans, graphics, etc.

Maryland Racing Industry Marketing Partnership

January

- » Holiday Advertising including MLK weekend
- » Rosecroft Live Opening

February

- » Presidents Day Weekend Focus

March

- » Generic Throughout Month

April

- » Maryland Spring Challenge
- » Early Triple Crown Awareness

May

- » Generic Follow-up to Preakness; Memorial Day Weekend and Belmont Stakes
- » Rosecroft's 50th Anniversary

June

- » Triple Crown
- » Ocean Downs Opening
- » Rosecroft Family Fun Fest

July

- » De Francis Dash
- » July 4th Promotions

August

- » Saratoga
- » Hambletonian
- » State Fair and Labor Day
- » Wayne Smullin Memorial

September

- » Ocean Downs Season Finale
- » Generic last two weeks of month

October

- » Mane Attraction at Rosecroft
- » Finals to Sire Stakes
- » Maryland Million at Laurel

November

- » Breeders Cup
- » Breeders Crown

December

- » Holiday Focus

A New Road Map For A Maryland Tradition



Appendix F

Bally's at OCEAN DOWNS HARNESS RACING

DENNIS DOWD

President

January 7, 1999

Outline for Janney Commission

A) Introduction:

Dennis Dowd, President
Donald R. Codey, Jr., COO

B) Acquisition – May 1997

Live racing commenced July 1997 with \$220,000 state purse subsidy and \$500,000 Bally's purse commitment, plus an intense advertising and capital improvement plan.

We have spent over \$700,000 in capital improvements since acquisition.

1997 attendance increased 45% and the loss for the calendar year was \$660,000, down from over a million dollars the previous year.

Introduction of special events in 1997:

Monster Truck Show
Marshall Tucker Band
Pony Rides
Local bands
Giveaways
Free Admission
Free Parking
Continuation of Circus

C) 1998

Re-introduction of thoroughbred simulcasting on a more equitable percentage.

Same number of racing days with increased State subsidy to \$320,000.

Increased advertising and increased special events with State matching funds of \$90,000 plus.

Live racing attendance increased 5%.

Simulcasting attendance increased 100%

Increased level of special events to include:

- Ray Charles
- Sammy Kershaw
- New Orleans Blues
- Continuation of local bands
- Pony Rides
- Introduction of Ocean City Flea Market
- Off season Country Line Dancing
- Year 'round Saturday Night All-You-Can-Eat Buffet
- Holiday events (New Year's Eve Party)
- Increased participation in community affairs
- Christmas Float in local parades
- Sponsorship of local soccer, softball teams
- Membership and attendance at Chamber of Commerce events
- Expanded participation in national industry groups
- Directorship in Harness Tracks of America
- Directorship in U.S.T.A.
- Attending the National Simulcast Conference and International Symposium with resulting increase in simulcasting sites from 43 locations to 84.
- Increased Off Track Handle:
- Increased out of state off track handle by 78%.
- Loss reduced to \$190,000.

D) Current

1999 Budget complete showing anticipated loss of \$95,000, not included in operations:

- a) OTB's in state of Maryland
- b) Phone Betting

Bally's at Ocean Downs currently receives no revenues from OTB systems other than its sale for 3% of its signal.

We attempted to open an OTB in Hagerstown and were denied by the Maryland Racing Commission.

It is important that the industry and our operation have the ability to expand the OTB system in order to compete with our neighbors.

E) Phone Betting:

Phone betting is currently a reality in Pennsylvania and Connecticut and a National Gaming Network is currently being launched. We will send our signal to that channel but we will also lose revenue by local Marylanders opening accounts with our competitors.

It is imperative that a phone betting system be implemented as soon as possible with each racetrack having the right to develop and operate its own system statewide.

F) Recommendations

We are asking for continuing state support, increased support for an open OTB, a fair phone betting system and that the State should continue to incorporate the meetings between all tracks, horsemen and breeders and the partnership authorized last year.

Appendix G

PIMLICO RACETRACK NEIGHBORHOODS TASK FORCE

Florine V. Robinson, Chair
PIMLICO GOOD NEIGHBOR ASSOCIATION

Calvin Anderson
NORTHWEST BALTIMORE CORPORATION

Ronald Billy
LEVINDALE/SUNSET ASSOCIATION

John Clinton
PIMLICO MERCHANTS ASSOCIATION

Polly Duke
MT. WASHINGTON
IMPROVEMENT ASSOCIATION

Rev. Keria Elliott
THE LORDS' CHURCH

William H. Engleman
BALTIMORE JEWISH COUNCIL

Janie Geer
PARK WEST MEDICAL CENTER

Donald Giller
SINAI HEALTH SYSTEM

Stuart Macklin
THE DEVELOPMENT CORPORATION

Barbara Scott
CITY BURN COMMUNITY ACTION ASSOCIATION, INC.

Mark Shapiro
CHAI

Pat T. Smith
GLEN NEIGHBORHOOD
IMPROVEMENT ASSOCIATION

Devery Thomas
PARK/RES COORDINATOR COALITION

Sam Yarbrough
PARK HEIGHTS NETWORKING
COMMUNITY COUNCIL

Jeffrey W. Barry, III
Planning Consultant

PIMLICO RACETRACK NEIGHBORHOODS TASK FORCE LEGISLATIVE FRAMEWORK DECEMBER 1998 PRESENTED TO THE JANEY COMMISSION

The Pimlico Racetrack Neighborhoods Task Force, established in 1996, is a diverse coalition of fifteen community associations, businesses and institutions in northwest Baltimore. Its mission is addressing the future of Pimlico Racetrack and to represent the neighborhoods in all discussions concerning Pimlico Racetrack. The Task Force is a project of the Northwest Baltimore Corporation, a nonprofit umbrella organization.

During its two years of existence, the Task Force has worked toward establishing a position on Pimlico Race Track. Through town meetings, meetings with community and business associations and individual institutions the Task Force has determined that the community's priority is keeping Pimlico open as a racing facility. This position reflects the historic 128-year relationship that the racetrack has had in and with northwest Baltimore.

Since 1996, the Task Force has testified before the Ways and Means and Finance Committees on the need to enhance Pimlico through capital improvements, increased purses and a more aggressive marketing strategy. Many concerns were incorporated into the amendments of House Bill 315. The community believes that it is critical that a long-range plan be developed and implemented that protects the integrity of Pimlico and encourage uses that attracts a broad-based, year-round audience. Pimlico's revitalization, the Task Force believes, can be developed as a cornerstone and act as a catalyst for the northwest corridor, especially the Park Heights and Belvedere Avenue commercial districts.

To that end, the Task Force encourages the Janey Commission to include the following concepts and principles into their legislative and regulatory recommendations.

1. **Sustain and enhance Racetrack Impact Funds at their current levels.** Racetrack impact funds have been in existence for approximately twenty years. They are used by the City and community to offset the impacts of racing and to make physical improvements to the neighborhoods surrounding the racetrack. Funding is based on a formula that is set by the legislature. In

"Seeking to preserve and enhance the quality of life in our neighborhoods"

3702 W. Rogers Avenue Baltimore, MD 21215 phone (410) 542-6610 fax (410) 542-7153

the past, impact funds have been used to rehabilitate vacant houses, improve playgrounds and provide employment opportunities for area youth. These funds are critical to the improvement and revitalization of the local neighborhoods and every effort should be made to increase their allocation as the racetrack improves.

2. **Link capital improvements to community economic development initiatives.** Improvements to Pimlico racetrack can provide numerous employment and entrepreneurial opportunities for the community. The Task Force supports initiatives that will enhance its own ability to develop sustainable neighborhoods through linkages that provide economic development initiatives, and encourages the Janey Commission to study the enabling legislation for the Cooke stadium, that provided similar initiatives, as a model.
3. **Link the Planned Unit Development (PUD) requirements into ongoing financial assistance.** In 1971, the Baltimore City Council passed a PUD that provided a variety of zoning allowances in an effort to help the racetrack consolidate and improve their property. Legislation required a variety of improvements, including:
 - Relocation of Pimlico Road to a new road, Preakness Way
 - Acquisition of certain residences for racetrack parking
 - Replacing stables with parking and new stables
 - Renovation of the Grandstand and Clubhouse
 - Extensive landscaping and screening treatments
 - Redirection of vehicular access away from neighborhood streets

Over the past twenty years some of these items have been implemented, but in a sporadic fashion. As the need for parking diminished, the need to acquire properties for parking became less important. Eventually, by the early 90's the PUD's completion was stalled.

While many of these items may need to be reexamined, landscaping, traffic access, new stables and facility renovations remain community priorities.

The Task Force urges the Janey Commission to link funds that assist the racetrack to basic capital improvements. The maintenance and upgrading of the track is critical to the community's revitalization effort, will prevent further blight and deterioration in a community with substantially high vacancy rates and will provide a more comfortable visitor's experience for patrons.

4. **Keep the Preakness in Baltimore.** The Preakness brings national and international exposure to our community. The Task Force believes that a comprehensive strategy should be built around retaining this world class race regardless of the track's ownership.
5. **Creation of a state management authority.** The Task Force believes that a statewide management authority should be explored, perhaps through the Maryland Stadium Authority, to oversee the management, marketing and operations of the racetrack. Initially, this could involve an independent evaluation of the facility and its capital needs.

Additionally, the Task Force believes that as part of a broader strategy that historic designation should be explored both to provide tax credits and open the door to financial incentives and to create a new tourist opportunity.

In summary, the Task Force supports the work of the Committee and pledges to continue to work with you to identify and implement methods to preserve Maryland racing and the Pimlico Racetrack.

Appendix H



THE MARYLAND JOCKEY CLUB

P.O. Box 130
Laurel, Maryland 20725

February 25, 1999

The Honorable Thomas L. Bromwell
James Senate Office Building
Presidential Wing
Annapolis, MD 21401-1991

Dear Senator Bromwell:

Your letter of February 16 raised various questions regarding Pimlico and Laurel. There are a number of popular misconceptions about the Maryland Jockey Club and its stewardship of the racetracks that should be corrected and we address them below.

FICTION: No significant investment has been made in improving or maintaining Pimlico and Laurel.

FACTS : We have spent \$148 million in acquiring, improving and maintaining Pimlico and Laurel as follows —

- \$46.7 million to purchase Laurel and Pimlico
- \$31 million to make capital improvements to Pimlico and Laurel from 1985 through 1998
- \$70 million to make repairs and to maintain Pimlico and Laurel (exclusive of salaries paid to our own employees) from 1985 through 1998.

The Honorable Thomas L. Bromwell
February 25, 1999
Page 2

FICTION: The Maryland Jockey Club spends little on marketing and public relations.

FACTS : \$55 million was spent by us on advertising, publicity and promotion from 1985 through 1998. We also gave away an additional \$43.3 million in promotional discounts to patrons (free and reduced price admissions, parking, programs, etc.).

FICTION: The Maryland Jockey Club has no operating expenses that are different from other horse racetracks.

FACTS : Pimlico and Laurel invest more in providing benefits to our horsemen and horse breeders than tracks in any other racing jurisdiction in North America.

- 53% of net revenues from wagering are paid directly to purses and the breeders' fund, leaving only 47% for Pimlico and Laurel. The Pennsylvania tracks, for example pay only 30.5% to their horsemen and breeders and retain 69.5% for themselves. If Maryland followed the Pennsylvania model, we would have \$16 million more available annually for capital improvements, marketing and OTB development.
- We are the only tracks required to keep open three complete facilities for the training of racehorses 365 days a year without any charge to the horsemen. We spent \$27.3 million from 1985 through 1998 operating the Bowie Racecourse Training Center. We provide at Bowie -- as well as at Pimlico and Laurel -- horse stalls, dormitories for trainers' employees and track facilities, free of charge to the horsemen.

The Honorable Thomas L. Bromwell

February 25, 1999

Page 3

FICTION: The Maryland Jockey Club has been very profitable for its owners who have been taking home large dividends rather than reinvesting in their aging facilities.

FACTS : No dividends or distributions whatsoever have been paid to the stockholders of Laurel or Pimlico since we acquired the tracks almost 15 and 13 years ago. Those stockholders who also work at the racetracks are paid salaries consistent with their jobs, responsibilities and similar businesses. This is simply an abysmal investment return by any standard.

FICTION: Joe De Francis is the majority owner of Pimlico and Laurel.

FACTS : Joe De Francis owns 23½ % of the capital stock of Pimlico Racing Association, Inc. and 18½ % of the capital stock of Laurel Racing Assoc., Inc. Mr. De Francis does have voting control of Laurel and Pimlico. Leucadia National Corporation, a public company, is the largest single stockholder, owning 47% of Pimlico and 50% of Laurel.

FICTION: We do not know whether the financial numbers the Maryland Jockey Club publishes are true.

FACTS : The Maryland Racing Law requires the books and records of Pimlico and Laurel to be audited annually by an independent certified public accountant. Ernst & Young, one of the world's leading firms of certified public accountants, are and have been the tracks' independent auditors. The audited financial statements of the tracks are filed with the Maryland Racing Commission every year. The 1998 audited statements will be filed on or before March 15.

*

*

*

The Honorable Thomas L. Bromwell

February 25, 1999

Page 4

The above sets forth in summary form information contained in the detailed material that is enclosed, which consists of the following:

1. Report by Ernst & Young, independent certified public accountants, providing the information you requested for the periods from December 10, 1984 through December 31, 1997.
2. Schedule providing for 1998 the same type of information as in paragraph 1 above. Ernst & Young will be reviewing this information as part of their audits of Pimlico and Laurel for 1998, which will be filed with the Maryland Racing Commission as required by law on or before March 15, 1999.
3. A Schedule listing the stockholders of Pimlico Racing Association, Inc. and Laurel Racing Assoc., Inc. and the ownership interests of each.

Please let me know if there is any additional information you would like to have.

Sincerely,



Martin Jacobs

Treasurer and General Counsel

Report of Independent Auditors

Laurel Racing Association
Limited Partnership
Laurel, Maryland

Pimlico Racing Association, Inc.
Baltimore, Maryland

We have audited, in accordance with generally accepted auditing standards, the financial statements of Laurel Racing Association Limited Partnership for the 10 month and 21 day period ended October 31, 1985, the years ended October 31, 1986 and 1987, the fourteen month period ended December 31, 1988, and each of subsequent nine years ended through December 31, 1997 and have issued our reports thereon dated February 14, 1986, February 20, 1987, February 19, 1988, March 3, 1989, March 2, 1990, March 4, 1991, March 6, 1992, March 4, 1993, March 10, 1994, March 8, 1995, March 8, 1996, March 7, 1997 and March 13, 1998. We have audited, in accordance with generally accepted auditing standards, the financial statements of Pimlico Racing Association, Inc. and subsidiary for the period from December 30, 1986 to December 31, 1987 and for each of the subsequent 10 years ended through December 31, 1997, and have issued our reports thereon dated March 4, 1988, March 3, 1989, March 9, 1990, March 4, 1991, March 6, 1992, March 4, 1993, March 10, 1994, March 8, 1995, March 8, 1996, March 7, 1997 and March 13, 1998.

The aforementioned financial statements include the balances that are presented on the attached schedules: Schedule of Purchase Price Paid and Capital Expenditures, Schedule of Repairs and Maintenance and Facility Expenses, Schedule of Training Center Costs (Bowie Race Course), Schedule of Advertising, Publicity and Promotion (Marketing and Public Relations), and Schedule of Dividends and Capital Distributions to Stockholders. Such balances were presented in either the basic financial statements, the footnotes, or the schedules of other financial information.

This report is intended solely for your information in connection with your response to a request for information from the Chairman of the Senate Finance Committee of the Maryland General Assembly, dated February 16, 1999 and should not be used for any other purpose.

Ernst & Young LLP

February 22, 1999

Pimlico Racing Association, Inc. and Subsidiary (PRA)
 Laurel Racing Association Limited Partnership (LRALP)
 Schedule of Purchase Price Paid and Capital Expenditures
 December 10, 1984 through December 31, 1997

	LRALP (1)	PRA (2)	Total
Purchase price	\$16,100,000	\$30,600,000	\$46,700,000
<u>Capital improvements</u>			
10 month and 21 day period ended October 31, 1985	600,277	n/a	600,277
Year ended October 31, 1986	1,782,218	n/a	1,782,218
Year ended Oct 31, and period from Dec 10, 1986 to Dec 31, 1987	648,465	531,470	1,179,935
14 month period and year ended December 31, 1988	1,631,857	712,366	2,344,223
Year ended December 31, 1989	1,048,418	1,479,527	2,527,945
Year ended December 31, 1990	896,080	570,447	1,466,527
Year ended December 31, 1991	1,039,125	1,036,432	2,075,557
Year ended December 31, 1992	825,942	787,516	1,613,458
Year ended December 31, 1993	951,949	808,737	1,760,686
Year ended December 31, 1994	1,536,425	655,344	2,191,769
Year ended December 31, 1995	1,915,390	1,612,414	3,527,804
Year ended December 31, 1996	2,376,453	939,808	3,316,261
Year ended December 31, 1997	2,556,878	813,955	3,370,833
Total capital improvements	17,809,477	9,948,016	27,757,493
Total purchase price and improvements	<u>\$33,909,477</u>	<u>\$40,548,016</u>	<u>\$74,457,493</u>

- (1) LRALP acquired Laurel Race Course on December 10, 1984.
 (2) PRA acquired Pimlico Race Course on December 29, 1986.

Pimlico Racing Association, Inc. and Subsidiary (PRA)
 Laurel Racing Association Limited Partnership (LRALP)
 Schedule of Repairs, Maintenance and Facility Expenses
 December 10, 1984 through December 31, 1997

	<u>LRALP (2)</u>	<u>PRA (3)</u>	<u>Total</u>
<u>Repairs, maintenance and facility expenses (1)</u>			
10 month and 21 day period ended October 31, 1985	\$1,597,559	n/a	\$1,597,559
Year ended October 31, 1986	2,108,019	n/a	2,108,019
Year ended Oct 31, and period from Dec 10, 1986 to Dec 31, 1987	2,294,057	\$2,149,610	4,443,667
14 month period and year ended December 31, 1988	3,885,522	2,467,768	6,353,290
Year ended December 31, 1989	3,195,290	2,862,278	6,057,568
Year ended December 31, 1990	2,906,504	2,516,061	5,422,565
Year ended December 31, 1991	2,679,348	2,402,735	5,082,083
Year ended December 31, 1992	2,850,019	2,215,371	5,065,390
Year ended December 31, 1993	2,857,546	2,458,247	5,315,793
Year ended December 31, 1994	3,077,466	2,591,202	5,668,668
Year ended December 31, 1995	3,156,530	2,553,939	5,710,469
Year ended December 31, 1996	3,329,509	2,632,109	5,961,618
Year ended December 31, 1997	3,192,604	2,509,796	5,702,400
Total	<u>\$37,129,973</u>	<u>\$27,359,116</u>	<u>\$64,489,089</u>

- (1) Includes expenses categorized in the financial statements as maintenance, repairs, facility cleaning, utilities and vehicle maintenance. Does not include the salaries, wages, payroll taxes and related costs of employees of LRALP and PRA who worked in these areas.
- (2) LRALP acquired Laurel Race Course on December 10, 1984.
- (3) PRA acquired Pimlico Race Course on December 29, 1986.

Pimlico Racing Association, Inc. and Subsidiary (PRA)
 Laurel Racing Association Limited Partnership (LRALP)
 Schedule of Training Center Costs (Bowie Race Course)
 December 10, 1984 through December 31, 1997

	LRALP (2)	PRA (3)	Total
<u>Training center costs (Bowie Race Course) (1)</u>			
10 month and 21 day period ended October 31, 1985	\$419,266	n/a	\$419,266
Year ended October 31, 1986	1,198,998	n/a	1,198,998
Year ended Oct 31, and period from Dec 10, 1986 to Dec 31, 1987	1,134,682	\$1,100,603	2,235,285
14 month period and year ended December 31, 1988	1,252,352	959,552	2,211,904
Year ended December 31, 1989	1,120,417	1,069,573	2,189,990
Year ended December 31, 1990	1,143,244	1,098,469	2,241,713
Year ended December 31, 1991	982,414	961,721	1,944,135
Year ended December 31, 1992	955,890	913,343	1,869,233
Year ended December 31, 1993	1,007,339	966,042	1,973,381
Year ended December 31, 1994	1,051,095	1,009,603	2,060,698
Year ended December 31, 1995	1,004,129	1,005,587	2,009,716
Year ended December 31, 1996	1,258,247	1,075,059	2,333,306
Year ended December 31, 1997	1,196,384	1,198,649	2,395,033
Total	<u>\$13,724,457</u>	<u>\$11,358,201</u>	<u>\$25,082,658</u>

- (1) The Bowie Race Course Training Center is operated by a joint venture between LRALP and PRA and provides stall space and training facilities to horsemen. The costs of its operations are funded and divided between LRALP and PRA..
- (2) LRALP acquired Laurel Race Course on December 10, 1984.
- (3) PRA acquired Pimlico Race Course on December 29, 1986.

Pimlico Racing Association, Inc. and Subsidiary (PRA)
 Laurel Racing Association Limited Partnership (LRALP)
 Schedule of Advertising, Publicity and Promotion (Marketing and Public Relations)
 December 10, 1984 through December 31, 1997

	LRALP (1)		PRA (2)		Total		Grand total
	Advertising, publicity and promotion	Promotional discounts	Advertising, publicity and promotion	Promotional discounts	Advertising, publicity and promotion	Promotional discounts	
10 month and 21 day period ended October 31, 1985	\$925,928	\$496,165	n/a	n/a	\$925,928	\$496,165	\$1,422,093
Year ended October 31, 1986	1,515,493	1,240,884	n/a	n/a	1,515,493	1,240,884	2,756,377
Year ended Oct 31, and period from Dec 10, 1986 to Dec 31, 1987	1,973,496	1,427,623	\$2,693,188	\$1,942,821	4,666,684	3,370,444	8,037,128
14 month period and year ended December 31, 1988	2,723,434	2,321,008	2,937,748	2,071,321	5,661,182	4,392,329	10,053,511
Year ended December 31, 1989	2,661,747	1,857,702	2,735,819	1,626,230	5,397,566	3,483,932	8,881,498
Year ended December 31, 1990	1,717,844	1,605,925	3,493,750	1,311,927	5,211,594	2,917,852	8,129,446
Year ended December 31, 1991	2,342,899	1,954,961	3,515,779	1,638,102	5,858,678	3,593,063	9,451,741
Year ended December 31, 1992	1,624,933	2,055,010	3,332,114	1,858,203	4,957,047	3,913,213	8,870,260
Year ended December 31, 1993	1,415,962	1,378,988	2,864,520	1,121,720	4,280,482	2,500,708	6,781,190
Year ended December 31, 1994	1,101,492	1,758,339	2,385,862	1,917,474	3,487,354	3,675,813	7,163,167
Year ended December 31, 1995	1,036,510	1,872,437	2,244,697	1,751,998	3,281,207	3,624,435	6,905,642
Year ended December 31, 1996	690,534	1,648,476	1,884,419	1,757,051	2,574,953	3,405,527	5,980,480
Year ended December 31, 1997	873,319	2,226,246	2,157,734	1,189,752	3,031,053	3,415,998	6,447,051
Total	\$20,603,591	\$21,843,764	\$30,245,630	\$18,186,599	\$50,849,221	\$40,030,363	\$90,879,584

LRALP acquired Laurel Race Course on December 10, 1984.
 PRA acquired Pimlico Race Course on December 29, 1986.

Pimlico Racing Association, Inc. and Subsidiary (PRA)
 Laurel Racing Association Limited Partnership (LRALP)
 Schedule of Dividends and Capital Distributions to Stockholders
 December 10, 1984 through December 31, 1997

	<u>LRALP (1)</u>	<u>PRA (2)</u>	<u>Total</u>
<u>Dividends and Capital Distributions to stockholders (3)</u>			
10 month and 21 day period ended October 31, 1985	\$0	n/a	\$0
Year ended October 31, 1986	0	n/a	0
Year ended Oct 31, and period from Dec 10, 1986 to Dec 31, 1987	0	\$0	0
14 month period and year ended December 31, 1988	0	0	0
Year ended December 31, 1989	0	0	0
Year ended December 31, 1990	0	0	0
Year ended December 31, 1991	0	0	0
Year ended December 31, 1992	0	0	0
Year ended December 31, 1993	0	0	0
Year ended December 31, 1994	0	0	0
Year ended December 31, 1995	0	0	0
Year ended December 31, 1996	0	0	0
Year ended December 31, 1997	0	0	0
Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

- (1) LRALP acquired Laurel Race Course on December 10, 1984.
 (2) PRA acquired Pimlico Race Course on December 29, 1986.
 (3) Stockholders of Laurel Racing Assoc., Inc., the general partner of Laurel Racing Association Limited Partnership, and stockholders of Pimlico Racing Association, Inc.

SCHEDULE OF STOCKHOLDERS
PIMLICO RACING ASSOCIATION, INC.
AND
LAUREL RACING ASSOC., INC.
AT DECEMBER 31, 1998

	<u>Pimlico Racing Association, Inc.</u>		<u>Laurel Racing Assoc., Inc.</u>	
	Shares of Capital Stock		Shares of Capital Stock	
	<u>Owned</u>	<u>%</u>	<u>Owned</u>	<u>%</u>
Joseph A. De Francis	2,350	23.5%	1,375	18.33%
Karin M. De Francis	2,350	23.5	1,375	18.33
Martin Jacobs	600	6.0	1,000	13.34
LUK-Flats, LLC *	<u>4,700</u>	<u>47.0</u>	<u>3,750</u>	<u>50.00</u>
	<u>10,000</u>	<u>100.0%</u>	<u>7,500</u>	<u>100.00%</u>

* LUK-Flats, LLC is beneficially owned 90% by Leucadia National Corporation, a New York Stock Exchange company.

Pimlico Racing Association, Inc. and Subsidiary (PRA)
 Laurel Racing Association Limited Partnership (LRALP)
 For the Year Ended December 31, 1998
 (Unaudited)

	<u>LRALP</u>	<u>PRA</u>	<u>Total</u>
Capital improvements	\$2,100,221	\$1,106,091	\$3,206,312
Dividends and capital distributions to stockholders	\$0	\$0	\$0
Repairs, maintenance and facility expenses	\$3,065,174	\$2,431,080	\$5,496,254
Training center costs (Bowie Race Course)	\$1,135,504	\$1,113,019	\$2,248,523

	<u>LRALP</u>		<u>PRA</u>		<u>Total</u>		<u>Grand Total</u>
	<u>Advertising, publicity and promotion</u>	<u>Promotional discounts</u>	<u>Advertising, publicity and promotion</u>	<u>Promotional discounts</u>	<u>Advertising, publicity and promotion</u>	<u>Promotional discounts</u>	
Marketing and Public Relations	\$1,657,976	\$2,084,205	\$2,474,885	\$1,221,599	\$4,132,861	\$3,305,804	\$7,438,665